

## Exhibit 3-1

**XYZ, INC.  
CONSOLIDATED  
STATEMENTS OF  
INCOME AND  
RETAINED EARNINGS  
(DEFICIT)**

*FOR THE YEARS ENDED SEPTEMBER 30, 1988, 1987, 1986*

	1988	1987	1986
Net sales	<u>\$42,389,957</u>	<u>\$33,294,962</u>	<u>\$30,730,768</u>
Cost of sales	<u>35,981,363</u>	<u>26,405,930</u>	<u>24,972,185</u>
Gross profit	<u>6,408,594</u>	<u>6,889,032</u>	<u>5,758,583</u>
Selling, general and administrative expenses	<u>3,957,771</u>	<u>3,876,206</u>	<u>3,824,226</u>
Income from operations	<u>2,450,823</u>	<u>3,012,826</u>	<u>1,934,357</u>
Other income (deductions)			
Interest income	<u>441,891</u>	<u>347,613</u>	<u>362,295</u>
Interest expense	<u>(10,985)</u>	<u>(22,513)</u>	<u>(46,467)</u>
Other investment income - net			<u>134,690</u>
Miscellaneous	<u>55,066</u>	<u>48,660</u>	<u>93,654</u>
Total other income (deductions) - net	<u>485,972</u>	<u>373,760</u>	<u>544,172</u>
Income before income taxes	<u>2,936,795</u>	<u>3,386,586</u>	<u>2,478,529</u>
Provision for income taxes	<u>1,139,118</u>	<u>1,620,012</u>	<u>1,150,949</u>
Net income	<u>1,797,677</u>	<u>1,766,574</u>	<u>1,327,580</u>
Retained earnings, beginning of year	<u>1,157,528</u>	<u>1,726,292</u>	<u>1,983,007</u>
Stock dividend	<u>(2,610,888)</u>	<u>(1,952,645)</u>	<u>(1,365,590)</u>
Cash dividend (\$.11 per share, 1988; \$.08 per share, 1987; \$.06 per share, 1986)	<u>(391,960)</u>	<u>(300,693)</u>	<u>(218,705)</u>
Common stock acquired and retired	<u>(2,591)</u>	<u>(82,000)</u>	
Retained earnings (deficit), end of year	<u>\$ (50,234)</u>	<u>\$ 1,157,528</u>	<u>\$ 1,726,292</u>
Weighted average number of shares outstanding	<u>3,593,048</u>	<u>3,630,652</u>	<u>3,637,798</u>
Earnings per common share	<u>\$.50</u>	<u>\$.49</u>	<u>\$.36</u>

See accompanying Notes to Financial Statements

**INDEPENDENT  
AUDITORS'  
REPORT**

To the Shareholders of XYZ, Inc.:

We have audited the consolidated balance sheets of XYZ, Inc. at September 30, 1988 and 1987, and the related consolidated statements of income and retained earnings (deficit), and cash flows for each of the three years in the period ended September 30, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the companies at September 30, 1988 and 1987, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1988 in conformity with generally accepted accounting principles.  
DELOITTE HASKINS & SELLS  
Minneapolis, Minnesota  
December 5, 1988